

Message Text

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PAGE 01 GENEVA 02807 221733Z

64

ACTION EB-07

INFO OCT-01 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00 COME-00

DODE-00 FRB-03 H-02 INR-07 INT-05 L-02 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 TAR-01

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E.O. 11652: NA

TAGS: GATT, ETRD, FI

SUBJ: GATT BOP CONSULTATIONS - FINLAND

REF: STATE 89878

BEGIN SUMMARY. BOP COMMITTEE CONCLUDED THAT FINLAND
IMPORT RESTRICTIONS, INCLUDING PRIOR DEPOSIT, DO NOT GO
BEYOND MEASURES AUTHORIZED IN GATT ART XII FOR BOP PURPOSES.
FINLAND SAID RESERVES NOW DOWN TO 3 WEEKS' IMPORTS,
IMPORT SYSTEM DOES NOT DISCRIMINATE IN FAVOR OF CEMA
COUNTRIES. END SUMMARY.

1. DURING APRIL 21 GATT BALANCE-OF-PAYMENTS COMMITTEE
ARTICLE XII CONSULTATIONS, FINLAND SAID FOREIGN EXCHANGE
RESERVES HAVE DECLINED BY 50 PERCENT SINCE JANUARY AND
ARE SUFFICIENT FOR LESS THAN 3 WEEKS' IMPORTS, BOP DEFICIT
CAUSED BY FUEL AND RAW MATERIAL PRICE INFLATION COUPLED
WITH SLACK DEMAND FOR FINLAND'S EXPORTS; TRADE PROSPECTS
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PAGE 02 GENEVA 02807 221733Z

FOR NEAR FUTURE NOT GOOD. SAID WHILE QRS WILL BE NEEDED

FOR SOME TIME BECAUSE OF "STRUCTURAL CHANGES" IN FINNISH ECONOMY AND BOP PROSPECTS, PRIOR IMPORT DEPOSIT SYSTEM IS TEMPORARY. IMF SAID FINLAND'S CURRENT ACCOUNT DEFICIT TRIPLED IN 1974, EARLY 1975 IMPORT SURGE MAY HAVE BEEN DUE TO SPECULATION OVER IMPENDING CONTROLS, SAID IN VIEW VERY LOW LEVEL OF RESERVES, TEMPORARY MAINTENANCE OF RESTRICTIONS IS REQUIRED TO FORESTALL FURTHER DECLINE IN RESERVES BUT CORRECTIVE FISCAL AND MONETARY POLICIES SHOULD BE FOLLOWED.

2. EC INITIATED QUESTIONS, CONCENTRATED ON NEED FOR EXPORT DIVERSIFICATION, RELIANCE ON ALTERNATE FISCAL AND MONETARY MEASURES TO RESTORE EQUILIBRIUM, AND ASKED ABOUT EXPORT PERFORMANCE OF NON-FOREST PRODUCTS. FINLAND CITED CREDIT LIMITS, INVESTMENT CONTROLS, POLICY TO ENCOURAGE NEW MANUFACTURED EXPORTS. SAID EXPORTS OF METAL PRODUCTS HAVE HELD UP SO FAR, GROWTH OF INCOME FROM SERVICES HAS SLOWED. RESPONDING TO JAPANESE QUESTION ON IMPORT GROWTH FROM E. EUROPE, FINLAND SAID THIS DUE ALMOST EXCLUSIVELY TO INCREASED OIL PRICES FROM USSR AND COAL PRICES FROM POLAND.

3. EC, US, JAPAN, CANADA ALL REGRETTED NEED FOR IMPOSITION PRIOR DEPOSIT SYSTEM, HOPED FOR EARLY ABOLITION, EXPRESSED UNDERSTANDING FOR FINLAND'S PREDICAMENT. US GAVE STATEMENTS AND QUESTIONS IN REFTEL, EMPHASIZING PARA 6 ON NON-DISCRIMINATION. FINLAND SAID MARKKA IS FLOATING IN LINE WITH BASKET OF CURRENCIES, LAST SUMMER THERE WAS EVEN TALK OF REVALUING AS MEANS OF IMPROVING BOP. SAID CURRENT ACCOUNT DEFICIT NOT DUE TO LACK OF EXPORT COMPETITIVENESS BUT RATHER TO ECONOMIC CYCLE IN EXPORT MARKETS; DEPRECIATION OF MARKKA MIGHT HURT NET BOP POSITION.

4. FINLAND SAID 1975 CURRENT ACCOUNT DEFICIT EXPECTED TO EQUAL THAT OF 1974, BUT WITH RETURNS OF EARLY 1975 NOW IN, PROSPECT IS WORSE. FINLAND "CONSIDERING" USING IMF OIL FACILITY AND DRAWING AGAINST IMF QUOTA, BUT THESE LAST RESORT; FINLAND HOPES RELY ON REDUCED GROWTH IN DOMESTIC DEMAND AND HOPE FOR REVIVAL OF EXPORT LIMITED OFFICIAL USE

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PAGE 03 GENEVA 02807 221733Z

DEMAND. US NOTED FINLAND CLAIMS HAVE ALREADY EXHAUSTED RECOURSE TO LONG-TERM CAPITAL AND HAS DRAWN RESERVES DOWN; THUS WE PERSISTED IN QUESTIONING HOW PAYMENTS DEFICIT WOULD BE FINANCED. FINLAND EVADED, SAID THEY DIDN'T KNOW, ONLY REFERRED BACK TO USE OF DOMESTIC DEMAND CONSTRAINTS.

5. FINLAND SAID MACHINERY DESTINED FOR EXPORT

INDUSTRIES NOT EXEMPT FROM PRIOR DEPOSIT. US AND EC NOTED THIS CONFLICTED WITH EXPORT DIVERSIFICATION GOALS; FINLAND SAID THERE EXCESSIVE IMPORTATION OF INVESTMENT GOODS AND SINCE MOST INDUSTRIES EXPORT TO SOME EXTENT, PRIOR DEPOSIT EXEMPTION WOULD BE TOO BROAD TO BE EFFECTIVE DETERRENT TO IMPORTS. FINLAND SAID COST OF PRIOR DEPOSIT WAS NOT ACCEPTED AS GROUNDS FOR PERMITTING INTERNAL PRICE INCREASES. NO SPECIAL GUIDELINES HAVE BEEN SET FOR EXEMPTION OF GOODS FROM PRIOR DEPOSIT LIST OR FOR ADDITIONS, WHICH DONE CASE-BY-CASE, AND FEW EXEMPTIONS ALLOWED SO FAR.

6. FINLAND SAID NO RPT NO SPECIAL PROVISIONS FOR DEPOSIT SYSTEM MADE FOR CEMA TRADE OR TRADE SURPLUS COUNTRIES, SYSTEM IS ENTIRELY NON-DISCRIMINATORY. FINLAND NOTED THAT OWN TRADE WITH MOST CEMA COUNTRIES IS IN DEFICIT.

7. FINLAND SAID UP TO 15 APRIL, 19 MILLION MARKKAS OF FOREIGN EXCHANGE IN EXCESS OF INDICATIVE QR LEVELS HAS BEEN MADE AVAILABLE, AND "THIS SYSTEM CONTINUES." SAID BANK OF FINLAND PERMISSION IS NEEDED ON ALL LONG-TERM CREDITS; FOR COMMERCIAL CREDITS SOME GOODS ARE PERMITTED UP TO SIX MONTHS FINANCING WHILE OTHERS, SUCH AS CONSUMER DURABLES, REQUIRE CASH PAYMENT. DEPOSIT SYSTEM IS APPLICABLE TO 63 PERCENT OF TOTAL IMPORTS, BUT HALF OF THAT IS RAW MATERIALS TO WHICH ZERO RATE APPLIES. ALTHOUGH DEPOSIT SYSTEM AUTHORITY IS VALID TO END-1976, SYSTEM HAS BEEN PLACED INTO EFFECT ONLY TO MARCH, 1976. FINLAND PROMISED REMOVED DEPOSITS AS SOON AS POSSIBLE BUT WAS NOT SANGUINE RE POSSIBILITIES.

8. COMMITTEE ASKED SECRETARIAT TO DRAFT REPORT LIMITED OFFICIAL USE

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CONCLUSIONS WHICH SAY IMPORT RESTRICTIONS, INCLUDING PRIOR DEPOSIT, DO NOT GO BEYOND MEASURES AUTHORIZED FOR BOP PURPOSES BY GATT ART XII. NO DISSENT VOICED. CONCLUSIONS WILL ALSO REGRET NEED FOR RESTRICTIONS, ASK FOR EARLY ABOLITION, AND URGE FINLAND KEEP MATTER UNDER REVIEW.

9. COMMENT: EC WAS AS LOADED WITH QUESTIONS AS WE WERE, BUT THEY DID NOT BEAR DOWN FORCEFULLY. NORDIC NEIGHBOR SSEDEN HAD SPECIFIC INSTRUCTIONS TO KEEP QUIET. IN DISCUSSING THEIR PREDICAMENT, FINLAND DEL NOTED AFTER SESSION THAT USSR HAS BEEN CHARGING THEM WORLD MARKET PRICE FOR OIL, "SAME PRICE AS ARABS."
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